

# **Wrap Fee Program Brochure**

**Form ADV Part 2A Appendix 1**  
**Item 1 — Cover Page**

## **Dunham & Associates Investment Counsel, Inc.**

**SEC File No. 801-25803**

**10251 Vista Sorrento Parkway**

**Suite 200**

**San Diego, CA 92121**

**Phone: 858-964-0500**

**Email: [compliance@dunham.com](mailto:compliance@dunham.com)**

**Website: [www.dunham.com](http://www.dunham.com)**

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This wrap fee program brochure provides information about the qualifications and business practices of Dunham & Associates Investment Counsel, Inc. If you have any questions about the contents of this brochure, please contact us at [compliance@dunham.com](mailto:compliance@dunham.com). The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Dunham & Associates Investment Counsel, Inc. is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

## **Item 2 — Material Changes**

This wrap fee program brochure dated March 15, 2012, amends and restates our wrap fee program brochure dated February 9, 2012.

This brochure contains the following material changes from our last brochure:

- Disclosure for a new wrap program.
- Plain English formatting revisions and more detailed disclosure for the current wrap program.

### Item 3 — Table of Contents

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## Item 4 — Services, Fees and Compensation

### *Introduction*

Dunham & Associates Investment Counsel, Inc. (“DAIC”) is a private wealth management firm that offers two “wrap” programs (the “Programs”):

1. Standard Asset Allocation Program (“Standard Program”); and
2. Custom Asset Allocation Program (“Custom Program”).

Both Programs offer DAIC’s proprietary family of sub-advised mutual funds (the “Dunham Funds”). DAIC serves as investment adviser to the Dunham Funds. DAIC is primarily a manager-of-managers, and as such, recommends and monitors a third-party sub-adviser (“Sub-Adviser”) for each of the Dunham Funds.

The following chart highlights the key different features of the Standard Program and the Custom Program:

| <i><b>Features</b></i>                  | <i><b>Standard Program</b></i> | <i><b>Custom Program</b></i> |
|---|--------------------------------|------------------------------|
| Dunham Fund Investments                 | √                              | √                            |
| Standard Dunham Asset Allocation Models | √                              | √                            |
| Custom Asset Allocation Models          |                                | √                            |
| Quarterly Rebalancing                   | √                              | √                            |
| Flat Advisory Fee Option                | √                              | √                            |
| Performance Advisory Fee Option         |                                | √                            |
| Quarterly Account Statements            | √                              | √                            |
| Monthly Account Statement Option        |                                | √                            |
| On-Line Account Access                  | √                              | √                            |
| Qualified (Retirement) Account Minimum  | \$ 5,000                       | \$ 50,000                    |
| Non-Qualified Account Minimum           | \$ 10,000                      | \$100,000                    |

### *Portfolio Management Services*

DAIC – as the Program Sponsor – selects the Dunham Funds, or other mutual funds that are offered in the Programs (collectively, “Eligible Funds”). DAIC also determines the allocations and sector weights of the core asset allocation models (“Core Allocations”). DAIC maintains a Core Fixed Income Allocation and Core Equity Allocation that may be used to create a blend of fixed income and equity funds. A portion of the Core Fixed Income Allocation may include equities. DAIC continually monitors the Core Allocations and adjusts them generally on a

quarterly basis to reflect market conditions, performance and other factors. Clients choose from the Core Allocations and/or any combination of Eligible Funds available in their selected Program, representing different asset classes, to diversify their portfolios based upon the long-term investment objectives selected by the client.

The Standard Program uses Dunham Funds Class “A” shares. For Program investors, the Class A shares’ upfront and deferred sales charges are waived. The Custom Program uses Dunham Funds Class “N” shares. Class N shares do not include upfront or deferred sales charges.

The Programs are designed to provide investment strategies appropriate for different investors. DAIC may recommend the same or substantially similar Program Core Allocations to different investors with substantially similar investment objectives. The Standard Program features six Allocation models with or without a cash component. The Custom Program allows clients to invest in any combination of the Eligible Funds and/or Core Allocations.

Within the Core Allocation models, risk classification may range from a “capital preservation” investor at the most risk-averse end of the spectrum, to an “aggressive growth” investor with the highest relative risk appetite. A Financial Advisor will regularly communicate with his or her client to ensure the client’s investments remain in-line with the client’s investment objectives. If the client’s objectives change, the Financial Advisor will work with DAIC to change the allocation.

Clients may place reasonable restrictions, or make reasonable modifications to existing restrictions, regarding the management of their account. Any reasonable restriction a client may wish to impose regarding the management of his or her account is subject to DAIC review and approval. DAIC will not accept any restrictions that are inconsistent with the applicable Program’s stated investment strategy or philosophy or that are inconsistent with the nature or operation of that Program. If a client chooses to apply for or eliminate a restriction placed on the client’s account, please contact an investment representative. If DAIC accepts a restriction on a client account, the account’s performance may differ from similar unrestricted Program accounts.

### ***Account Statements and On-Line Access***

Program clients are sent quarterly statements, showing all transactions occurring in the account during the period covered by the account statement, all contributions and withdrawals made by client during the period, the holdings in the account at the end of the period, all fees and expenses charged to the account including all advisory fees paid, and the value of the account at the beginning and end of the period. For the Custom Program, clients have the option to receive monthly account statements. Each Program client may access his or her account information online.

For the Custom Program, DAIC also provides requested periodic performance reports to the Financial Advisors for their clients.

## ***Custody***

For the Standard Program, the Dunham Funds' transfer agent, Gemini Fund Services LLC, serves as the custodian for Funds' shares held in a client account. For the Custom Program, Dunham Trust Company ("DTC"), an affiliate of DAIC, serves as custodian of account assets. Clients shall be responsible for paying any additional (non-Program) fees or charges of the custodian, including transaction fees, IRA custodial fees and trading costs, if applicable.

## ***Program Fees and Expenses***

### **Program Fee**

As the Program Sponsor, DAIC charges each client a single service program fee ("Program Fee") covering discretionary investment management, brokerage and custodial services related to Eligible Funds, shareholder servicing and distribution, and client communications. The Program Fee does not cover SEC fees, electronic fund and wire transfer fees, and any other account charges.

- *Standard Program.* The Program Fee is 0.25% of the average daily net asset value of a client account paid by the respective Fund.
- *Custom Program.* A client may choose between (a) 0.25% of the average daily net asset value of the client account if choosing an asset-based fee or (b) ½ of the performance-based fee if the client is a "qualified client" (as defined in the Investment Advisers Act).

Program Fees are not negotiable. However, DAIC reserves the right to waive a portion of a Program Fee in limited circumstances including in connection with promotional efforts.

As with other wrap programs of this type, participation in the Program may cost a client more or less than purchasing these services separately. For example, if there is heavy trading activity in a client account and high custodial charges, the Program Fee may cost the client less than if the client purchased advisory and custodial services separately and were charged brokerage commissions for each trade. Conversely, little trading activity and low custodial fees could result in the Program Fee exceeding the cost of the services being charged separately.

The applicable Program Fee is calculated on the average daily balance based upon the market value of the assets in a client account, including cash balances and money market fund shares and, when applicable, is prorated based on the number of days the account is managed. The Custom Program Fee shall be accrued daily and charged quarterly in arrears.

### Advisory Fee

The Financial Advisor may charge a client an asset-based advisory fee (“Advisory Fee”) up to 2.0% on an annualized basis and retain 100% of that amount. Additionally, if using the Custom Program there is a Performance Fee option for qualified clients.

The Advisory Fee shall be accrued daily and charged quarterly in arrears. Unless otherwise specified by client in writing, the Advisory Fee shall be paid first by debiting the Advisory Fee from any target cash balance. If the cash balance is insufficient to pay the entire Advisory Fee, then the remainder of the Advisory Fee shall be paid either by redeeming Fund shares on a dynamic basis, i.e., by redeeming shares of Funds necessary to return the allocation of Account assets to the client’s current target allocation percentages, or on a pro rata basis. If the Fund shares redeemed on a dynamic or pro rata basis are insufficient to pay the remainder of the Advisory Fee, then the Advisory Fee shall be paid by redeeming other Fund shares held in the Account. The redemption of Fund shares may cause client to incur a capital gain or loss for tax purposes. To the extent all or any portion of a fee is unpaid, each client participating in the Account, will be jointly and severally liable for the entire unpaid fee or portion thereof. If in any quarter, the amount of the Advisory Fee is less than \$100, the custodian may defer deduction of the client’s Advisory Fee, and the amount due will be carried forward to the next quarter, or until the date the account is terminated, whichever is earlier.

Regarding a performance-based fee for the Custom Program, a “qualified client” is defined generally as (a) a natural person having a net worth, together with assets held jointly with a spouse, of more than \$ 2 million (excluding the value of the primary residence) at the time the account is opened or (b) a natural person, after opening this account, who has total assets under management with DAIC of at least \$1 million. DAIC, as it’s Program Fee, and a client’s Financial Adviser each receive one-half of any performance fees attributable to a client’s account. The client is charged 10% of the total net increase in the market value of the account using “high-water” marks. The fee is calculated monthly and charged quarterly. As fees are calculated monthly and charged quarterly, in arrears, an account may incur a fee for a given month during the quarter even though the account value at quarter-end may be below the account value at the beginning of the quarter. DAIC provides detailed fee calculations on a quarterly basis. Clients should carefully review the fee calculation methodology described in the Program documents with their Financial Advisor.

### Other Fees Paid to DAIC

As investment adviser to the Dunham Funds, DAIC receives the investment advisory compensation described in the Funds’ prospectuses and such fees are borne by all shareholders in the Funds, including client. Also, as distributor of Dunham Fund shares, DAIC may receive compensation in connection with the sale of the Fund shares.

## Item 5 — Account Requirements and Types of Clients

### *Account Requirements*

The Programs require the stated minimum account size to open and maintain an account:

| <i>Account Requirements</i>            | <i>Standard Program</i> | <i>Custom Program</i> |
|--|-------------------------|-----------------------|
| Qualified (Retirement) Account Minimum | \$ 5,000                | \$ 50,000             |
| Non-Qualified Account Minimum          | \$ 10,000               | \$100,000             |

These minimums may be waived at the discretion of the Program Sponsor.

### *Types of Clients*

DAIC provides Program services to three types of clients:

- Clients of unaffiliated, independent investment advisory firms whose Financial Advisor has elected to use a Program as an investment product/vehicle;
- Direct or “private” clients of DAIC’s registered investment advisory representatives; and
- Clients of Dunham Trust Company for whom DTC is serving as trustee.

## Item 6 — Portfolio Manager Selection and Evaluation

DAIC utilizes a careful manager-of-managers (Sub-Adviser) approach that it believes continues to be successful in the selection of investment managers with specialized expertise in particular asset classes. DAIC uses performance-based fees (“fulcrum fees”) to compensate such Sub-Advisers, which DAIC believes best aligns the investment manager’s goals with a client’s goals.

As DAIC utilizes a manager-of-managers investment process, it does not directly decide the selection of securities or cash within a given mutual fund. Rather, it utilizes the expertise of each Dunham Fund’s Sub-Adviser, with each being uniquely knowledgeable in its respective asset class. DAIC monitors each Sub-Adviser’s investment process and results and may replace a Sub-Adviser should it find extended style drift or lacking performance (relative to both peers and the applicable benchmark). Ultimate portfolio manager discretion may vary by Sub-Adviser, within the stated investment policies and restrictions as disclosed in the prospectus and statement of additional information.

Neither DAIC nor any of its supervised persons act as a Sub-Adviser for the Eligible Funds.

DAIC implements and manages the Program’s Core Allocation models, including revising the asset class weightings and adding and/or removing Eligible Funds, which include Dunham



Funds. DAIC may be subject to competing interests that have the potential to influence its decision making with regard to selection of the Eligible Funds. For example, one of the Dunham Funds may provide a higher advisory fee to DAIC than another Fund. This may provide DAIC with incentive to use the Fund with the higher fee. Likewise, the impact of any fee waivers or expense reimbursements may provide an incentive to allocate assets to Dunham Funds that lower the waiver or reimbursement obligations of DAIC. In addition, DAIC may believe that certain Dunham Funds may benefit from additional assets or could be harmed by redemptions. DAIC seeks to identify and address any potential conflicts in a manner that is equitable for Program participants and the Dunham Funds.

#### **Item 7 — Client Information Provided to Portfolio Managers**

DAIC generally does not communicate client-specific information to a Program's portfolio management team, including Sub-Advisers of Dunham Funds.

#### **Item 8 — Client Contact with Portfolio Managers**

No restrictions are placed on a client's ability to contact or consult with a member of their portfolio management team, including Sub-Advisers of Dunham Funds.

#### **Item 9 — Additional Information**

##### ***Disciplinary Information***

In 2006, Dunham & Associates Holdings, Inc. ("Dunham Holdings"), DAIC, DTC, Jeffrey A. Dunham, Dunham & Associates Securities, Inc., and Asset Managers, Inc. ("AMI"), entered into a settlement order with the SEC. The SEC found that respondents publicly offered and sold investments in a common trust fund without registration of such investments under the Securities Act and without registration of such fund under the Investment Company Act. Respondents settled the case without admitting or denying the SEC's findings. *In the Matter of Dunham Associates Holdings, Inc., et al.*, SEC Admin. Proceeding File No. 3-12427 (Sept. 22, 2006).

##### ***Other Financial Industry Activities and Affiliations***

DAIC is a dually registered broker-dealer and investment adviser. DAIC is a wholly-owned subsidiary of parent Dunham Holdings and an affiliate of DTC and AMI. Jeffrey Dunham is an officer, director, and principal shareholder of Dunham Holdings. As a registered representative, Mr. Dunham does not receive directly sales commissions from sales of the Dunham Funds, however, DAIC may as disclosed in this brochure.

DTC is a privately held trust company licensed by the Nevada Department of Business & Industry, Financial Institutions Division. DAIC provides investment advisory services to DTC and to its clients. DTC serves as custodian for certain DAIC clients.

AMI is the general partner of the D&A Series III Mortgage Funds, a series of three private limited partnerships. DAIC served as investment adviser to and distributor for the Series III Mortgage Funds. These Mortgage Funds are not currently offered. AMI is general partner of the Dunham Commercial Mortgage Fund, LP effective January 2012. DAIC serves as investment adviser and distributor for this private limited partnership.

### ***Code of Ethics, Participation or Interest in Client Transactions and Personal Trading***

DAIC takes issues of regulatory compliance, fiduciary responsibility and public trust seriously. DAIC seeks the highest standards of ethics and conduct in all of its business relationships. DAIC's Code of Ethics ("Code") seeks to deter wrongdoing and (1) promote compliance with applicable governmental laws, rules and regulations, (2) provide standards of honest and ethical conduct, including ethical handling of actual or apparent conflicts of interest, (3) require all access persons to promptly report for review, personal transactions and holdings, (4) facilitate prompt internal reporting of violations of this Code, and (5) providing accountability for adherence to this Code. DAIC will provide a copy of our full Code to any client or prospective client upon request.

No employee or registered personnel of DAIC or its affiliates shall take action with regard to securities for themselves, DAIC, or any client account unless they are certain that the information in their possession is available to the investing public.

The Code imposes restrictions on the purchase or sale by access persons of securities for their own accounts and accounts in which he/she has a beneficial interest. Subject to the Code, certain employees of DAIC may recommend to clients the discretionary purchase or sale of securities in which DAIC's employees may have a beneficial interest. The Code includes preclearance of personal trades, blackout restrictions, and reporting requirements.

### ***Review of Accounts***

DAIC's Program accounts are reviewed on an ongoing and continuous basis. The Core Allocations are implemented similarly across all accounts with like investment objectives. Equity/fixed income/cash ratios are reviewed regularly and adjusted when appropriate. Any change in a client's financial or personal situation that affects investment objectives or cash flow needs will trigger additional reviews.

Clients receive monthly or quarterly account statements which include current valuation of assets. Gain/loss statements are provided annually for Custom Program taxable accounts. In the Custom Program, Financial Advisors may request special reports (i.e. performance reviews) to be delivered on a regular basis or as needed. Clients may also access account information via the DAIC and/or transfer agent website.

### ***Client Referrals and Other Compensation***

From time to time, DAIC may pay a non-affiliated third party (“Solicitor”) a fee or compensation for referral of a client to the Program. The Solicitor is required to provide prospective clients with a current copy of DAIC’s wrap fee program brochure and the Solicitor's written disclosure statement. The Solicitor’s statement will disclose the particulars of the referral relationship and the compensation DAIC will pay to the Solicitor.

### ***Financial Information***

DAIC does not require the prepayment of fees six months or more in advance. DAIC has never been the subject of a bankruptcy petition and there is no condition that is reasonably likely to impair our ability to meet contractual commitments to clients.

Neither DAIC, nor any of its investment professionals are registered as or have an application pending to register as a futures commission merchant, commodity pool operator, a commodity trading adviser or have any association with the foregoing entities.

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